

TOWNSHIP OF BRANCH  
Mason County, Michigan  
53-1070  
GENERAL PURPOSE FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

Year Ended March 31, 2004

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Branch	<b>County</b> Mason
<b>Audit Date</b> March 31, 2004	<b>Opinion Date</b> August 20, 2004	<b>Date Accountant Report Submitted to State:</b> August 20, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on the financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686		<b>City</b> Bay City	<b>State</b> MI
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.		<b>Zip</b> 48707	

TOWNSHIP OF BRANCH  
Mason County, Michigan

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# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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## **INDEPENDENT AUDITOR'S REPORT**

August 20, 2004

To the Township Board  
Township of Branch  
Mason County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Branch, Mason County, Michigan, as of March 31, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Branch's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Township has not maintained a record of its general fixed assets, and accordingly, a statement of general fixed assets, required by generally accepted accounting principles, is not included in the general purpose financial statements.

In our opinion, except that the omission of the financial statement described above results in an incomplete presentation, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Branch, Mason County, Michigan, as of March 31, 2004, and the results of its operations and cash flows of its Trust Fund for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purposes of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of Branch, Mason County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.

Certified Public Accountants

TOWNSHIP OF BRANCH  
Mason County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES  
March 31, 2004

EXHIBIT A

	<u>Governmental Fund Type</u>	<u>Fiduciary Fund Types</u>	<u>Total (Memorandum Only)</u>
<u>Assets</u>	<u>General</u>	<u>Trust and Agency</u>	
Cash in bank	73 903 97	16 974 48	90 878 45
Taxes receivable	5 901 40	-	5 901 40
Due from other funds	<u>1 961 19</u>	<u>-</u>	<u>1 961 19</u>
Total Assets	<u><u>81 766 56</u></u>	<u><u>16 974 48</u></u>	<u><u>98 741 04</u></u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Due to other funds	-	1 961 19	1 961 19
Due to others	-	<u>7 757 41</u>	<u>7 757 41</u>
Total liabilities	<u>-</u>	<u><u>9 718 60</u></u>	<u><u>9 718 60</u></u>
Fund balances:			
Reserved for cemetery care	-	7 255 88	7 255 88
Unreserved:			
Undesignated	<u>81 766 56</u>	<u>-</u>	<u>81 766 56</u>
Total fund balances	<u><u>81 766 56</u></u>	<u><u>7 255 88</u></u>	<u><u>89 022 44</u></u>
Total Liabilities and Fund Balances	<u><u>81 766 56</u></u>	<u><u>16 974 48</u></u>	<u><u>98 741 04</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF BRANCH  
Mason County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

EXHIBIT B

Year Ended March 31, 2004

Governmental  
Fund Type  
General

Revenues:

Property taxes	28 007 97
Licenses and permits	4 897 51
State revenue sharing	85 940 50
Charges for services:	
Property tax administration	12 076 97
Interest	1 176 38
Rents	975 00
Miscellaneous	4 715 68

Total revenues

137 790 01

Expenditures:

Legislative:

Township Board	13 129 40
General government:	
Supervisor	6 653 20
Assessor	22 140 35
Clerk	6 812 52
Board of Review	1 046 50
Treasurer	17 227 28
Building and grounds	3 587 78
Cemetery	3 214 84

Public safety:

Fire protection

11 563 71

Public works:

Highways and streets

77 145 77

Street lighting

2 034 13

Culture and recreation:

Recreation

300 29

Total expenditures

164 855 77

Excess (deficiency) of revenues over expenditures

(27 065 76)

Fund balance, April 1

108 832 32

Fund Balance, March 31

81 766 56

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF BRANCH  
Mason County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

Year Ended March 31, 2004

EXHIBIT C  
Page 1

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Property taxes	35 258 00	28 007 97	(7 250 03)
Licenses and permits	-	4 897 51	4 897 51
State revenue sharing	70 000 00	85 940 50	15 940 50
Charges for services:			
Property tax administration	10 500 00	12 076 97	1 576 97
Interest	1 000 00	1 176 38	176 38
Rents	500 00	975 00	475 00
Miscellaneous	6 000 00	4 715 68	(1 284 32)
Total revenues	<u>123 258 00</u>	<u>137 790 01</u>	<u>14 532 01</u>
Expenditures:			
Legislative:			
Township Board	13 500 00	13 129 40	(370 60)
General government:			
Supervisor	7 000 00	6 653 20	(346 80)
Elections	500 00	-	(500 00)
Assessor	23 000 00	22 140 35	(859 65)
Clerk	7 500 00	6 812 52	(687 48)
Board of Review	1 500 00	1 046 50	(453 50)
Treasurer	17 500 00	17 227 28	(272 72)
Building and grounds	7 000 00	3 587 78	(3 412 22)
Cemetery	5 000 00	3 214 84	(1 785 16)
Public safety:			
Fire protection	15 000 00	11 563 71	(3 436 29)
Public works:			
Highways and streets	133 035 77	77 145 77	(55 890 00)
Street lighting	2 500 00	2 034 13	(465 87)
Culture and recreation:			
Recreation	500 00	300 29	(199 71)
Total expenditures	<u>233 535 77</u>	<u>164 855 77</u>	<u>(68 680 00)</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF BRANCH  
Mason County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

Year Ended March 31, 2004

EXHIBIT C  
Page 2

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Excess (deficiency) of revenues over expenditures	(110 277 77)	(27 065 76)	83 212 01
Fund balance, April 1	<u>110 277 77</u>	<u>108 832 32</u>	<u>(1 445 45)</u>
Fund Balance, March 31	<u>-</u>	<u>81 766 56</u>	<u>81 766 56</u>

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF BRANCH  
Mason County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND BALANCE – CEMETERY PERPETUAL CARE FUND

EXHIBIT D

Year Ended March 31, 2004

Revenues:	
Cemetery lots	100 00
Interest	<u>210 91</u>
Total revenues	<u>310 91</u>
Expenses	<u>-</u>
Net income	310 91
Fund balance, April 1	<u>6 944 97</u>
Fund Balance, March 31	<u><u>7 255 88</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF BRANCH  
Mason County, Michigan

COMBINED STATEMENT OF CASH FLOWS -  
CEMETERY PERPETUAL CARE FUND

Year Ended March 31, 2004

EXHIBIT E

Cash flows from operating activities:	
Cash received from customers	100 00
Cash payments to suppliers for goods and services	-
Net cash provided (used) for operating activities	<u>100 00</u>
Cash flows from investing activities:	
Interest income	210 91
Net cash provided (used) for investing activities	<u>210 91</u>
Net increase (decrease) in cash and cash equivalents	310 91
Cash and cash equivalents, April 1	<u>6 944 97</u>
Cash and Cash Equivalents, March 31	<u><u>7 255 88</u></u>
Reconciliation of operating income to net cash provided (used) for operating activities:	
Operating income	100 00
Net Cash Provided (Used) for Operating Activities	<u><u>100 00</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF BRANCH  
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Branch, Mason County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Branch. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds, categorized and described as follows:

Governmental Fund

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Funds

The Current Tax Collection Fund is used to account for assets held as an agent for others. The Cemetery Perpetual Care Fund is reserved for cemetery care.

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

TOWNSHIP OF BRANCH  
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus/Basis of Accounting (continued)

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14, with the final collection date of February 28 before they are added to the county tax rolls. The 2003 Township tax roll millage rate was .7929 mills and the taxable value was \$35,270,025.00.

Fixed Assets

Purchases of fixed assets for all funds are recorded as expenditures in their respective funds at the time of purchase. The Township has not maintained a record of its general fixed assets which is required by generally accepted accounting principles.

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

TOWNSHIP OF BRANCH  
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

TOWNSHIP OF BRANCH  
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Township provides no postemployment benefits to past employees.

Note 2 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>90 878 45</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

TOWNSHIP OF BRANCH  
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 2 – Deposits and Investments (continued)

	<u>Bank Balances</u>
Insured (FDIC)	135 304 89
Uninsured and Uncollateralized	-
Total Deposits	<u>135 304 89</u>

The Township of Branch did not have any investments as of March 31, 2004.

Note 3 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 4 – Pension Plan

The Township has a defined contribution pension plan covering all full-time employees. The Township contributes an amount of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2004, was \$3,649.36.

Note 5 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 6 – Building Permits

The Township of Branch does not issue building permits. Building permits are issued by the County of Mason.

Note 7 – Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

TOWNSHIP OF BRANCH  
Mason County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended March 31, 2004

EXHIBIT F  
Page 1

Township Board:	
Salaries and wages	1 150 00
Printing and publishing	220 68
Insurance	3 111 00
Memberships and dues	728 43
Pension	3 649 36
Miscellaneous	4 269 93
	<u>13 129 40</u>
Supervisor:	
Salaries and wages	6 600 00
Miscellaneous	53 20
	<u>6 653 20</u>
Assessor:	
Contracted services	16 500 00
Office supplies	5 640 35
	<u>22 140 35</u>
Clerk:	
Salaries and wages	6 600 00
Office supplies	93 52
Transportation	119 00
	<u>6 812 52</u>
Board of Review:	
Salaries and wages	810 00
Miscellaneous	236 50
	<u>1 046 50</u>
Treasurer:	
Salaries and wages	8 500 00
Office supplies	8 309 10
Transportation	418 18
	<u>17 227 28</u>
Building and grounds:	
Salaries and wages	360 00
Supplies	124 86
Utilities	1 622 92
Miscellaneous	1 480 00
	<u>3 587 78</u>
Cemetery:	
Salaries and wages	2 370 00
Repairs and maintenance	407 49
Utilities	437 35
	<u>3 214 84</u>



TOWNSHIP OF BRANCH  
Mason County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended March 31, 2004

EXHIBIT F  
Page 2

Fire protection:	
Salaries and wages	
Utilities	9 860 79
Telephone	1 343 65
	<u>359 27</u>
Highways and streets:	<u>11 563 71</u>
Contracted services	
	<u>77 145 77</u>
Street lighting:	
Utilities	
	<u>2 034 13</u>
Recreation:	
Supplies	
Utilities	237 00
	<u>63 29</u>
	<u>300 29</u>
Total Expenditures	<u>164 855 77</u>

TOWNSHIP OF BRANCH  
Mason County, Michigan

COMBINING BALANCE SHEET – ALL FIDUCIARY FUNDS  
March 31, 2004

EXHIBIT G

	Nonexpendable Trust Cemetery Perpetual Care	Agency Current Tax Collection	Total
<u>Assets</u>			
Cash in bank	7 255 88	9 718 60	16 974 48
Total Assets	<u>7 255 88</u>	<u>9 718 60</u>	<u>16 974 48</u>
<u>Liabilities and Fund Equity</u>			
Liabilities:			
Due to other funds	-	1 961 19	1 961 19
Due to others	-	7 757 41	7 757 41
Total liabilities	<u>-</u>	<u>9 718 60</u>	<u>9 718 60</u>
Fund equity:			
Fund balances:			
Reserved for cemetery care	7 255 88	-	7 255 88
Total fund balances	<u>7 255 88</u>	<u>-</u>	<u>7 255 88</u>
Total Liabilities and Fund Balances	<u>7 255 88</u>	<u>9 718 60</u>	<u>16 974 48</u>

TOWNSHIP OF BRANCH  
Mason County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
March 31, 2004

EXHIBIT H

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/04</u>
<u>Assets</u>				
Cash in bank	<u>24 75</u>	<u>1 070 255 64</u>	<u>1 060 561 79</u>	<u>9 718 60</u>
<u>Liabilities</u>				
Due to other funds	24 75	35 986 32	34 049 88	1 961 19
Due to other taxing units	-	<u>1 034 269 32</u>	<u>1 026 511 91</u>	<u>7 757 41</u>
Total Liabilities	<u>24 75</u>	<u>1 070 255 64</u>	<u>1 060 561 79</u>	<u>9 718 60</u>

# **CAMPBELL, KUSTERER & CO., P.C.**

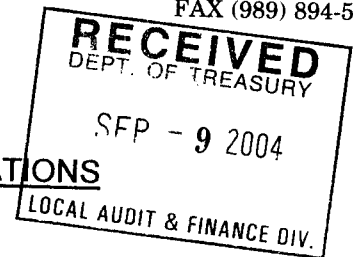
CERTIFIED PUBLIC ACCOUNTANTS

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## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**



August 20, 2004

To the Township Board  
Township of Branch  
Mason County, Michigan

We have audited the financial statements of the Township of Branch, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Township of Branch in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Township Board  
Township of Branch  
Mason County, Michigan

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the Township Board  
Township of Branch  
Mason County, Michigan

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Township of Branch will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Township will be required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2004.

#### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer; Co., P.C.*  
CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants